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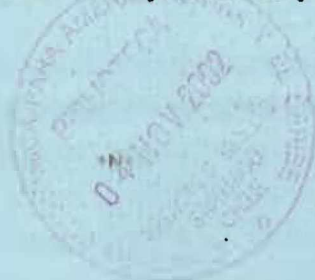
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**International Seminar  
"STATE REFORM AND MODERNIZATION IN LATIN AMERICA"**

Mexico City, 18-20 May 1994



**Working document No. 1**

**STATE REFORM AND MODERNIZATION IN LATIN AMERICA**

**Edgardo Boeninger**

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## **SEMINAR ON STATE REFORM AND MODERNIZATION IN LATIN AMERICA**

**(Mexico City, 18-20 May 1994)**

**Edgardo Boeninger**

**Author's note:** This document represents an attempt to deal with the subject matter in a way that facilitates, without losing sight of the tremendous diversity of existing situations in Latin America, the identification of a common set of problems, challenges and opportunities. Therefore, although these considerations are based on the Chilean experience, they are being presented as inputs for a debate geared towards drawing more generally valid conclusions.

### **SUBJECT AREA I: DIAGNOSTIC STUDY OF PROBLEMS IN ADAPTING THE STATE TO PREVAILING CONDITIONS**

#### **I.A. Perennial problems of the Latin American State**

In Latin America, the State exhibits highly diverse levels of institutional stability and continuity and significant disparities with respect to political cohesiveness and theoretical and managerial capacity. Without ignoring that diversity, it can be asserted that all the countries of the region have suffered or are still grappling with an array of political, technical, institutional and other problems which are often chronic or recurrent. They include the following:

1. Political instability, manifested by a fragile democratic system or, at least, the lack of a reasonably durable and cohesive political majority.
2. Weakness of some of the key institutions of democracy, such as the system of political parties and the legislative and judicial branches of government.
3. Weakness and fragmentation of the social organizations with the greatest potential for exercising national influence, with consequent difficulties in forming stable bases of social support for government administration and, especially, economic policies.
4. The predominance of populism as a symptom of the State's institutional weakness and of the illusion that development can be achieved and living standards raised without cost or sacrifice

for anyone, and as a predictable outcome of direct communication between leaders who rely on personal charisma and "their people".

5. Technical and institutional weakness of the State owing to the difficulty of attracting and retaining a sufficiently large core group of high-level professionals and to the absence of a public ethos and *esprit de corps* that give the State enough autonomy to act independently of the interests of specific people and groups, which, in extreme cases, has led to situations where control of the State becomes the "spoils" of the victors.
6. As a consequence of these problems, only in rare instances has a Latin American State successfully developed a "national agenda" for achieving a "vision of the country" that enables it to play an effective leadership role capable of generating loyalty and mobilizing national energies. (The Brazilian "miracle" of the 1970s and the Acción Democrática (AD)-Comité de Organización Política Electoral Independiente (COPEI) consensus reached in Venezuela while that country was consolidating its democracy could be cited as exceptions, together with the solidity of Costa Rica's democratic Government.)
7. Undoubtedly, these problems are compounded by the related (though different and parallel) scourges of corruption and drug trafficking.
8. Lastly, after decades of the instability, stagnation and other phenomena mentioned above, Latin America still suffers from the basic problems of poverty—which affects a high proportion of its population, and often contrasts dramatically with the opulence of a privileged few—, acute inequality of opportunity and the unsatisfied aspirations of middle-class urban sectors with a modest standard of living but considerable capacity to exert political pressure; all of these problems have a violent and persistent impact on the State.

#### **I.B. Emerging problems of the Latin American State**

1. Latin America is a full participant in two contemporary megatrends: the shift towards democratic political systems and the building of market economies dominated by private enterprise, which forge links with the world economy and open themselves to it at different speeds and to varying degrees.



Today, Latin America has a firmer foundation on which to build democracy and market economies. This outcome was influenced by the fall of socialist systems, the end of the cold war and the crumbling of the support which developed countries of the West formerly provided to various dictatorships merely because they were anti-communist. The principle of respect for human rights has become so universally recognized that it tends to legitimize intervention in the internal affairs of other States in the name of that principle. Open market economies are now considered the only development option, as there are currently no significant political movements in the region that postulate the contrary, although some new (albeit still incipient) opposition ideologies are emerging, as in the case of some ecological movements, in their more extreme forms.

This poses specific challenges to the countries —and especially the Governments— of Latin America. Although Latin America's formal political culture is one of democracy, more than a few of the countries of the region have an authoritarian tradition, with the recurrent predominance of paternalistic or merely charismatic figures as leaders or presidents. The new circumstances have made it imperative to continue to develop and consolidate a political culture of democracy, as a precondition for building solid institutions and ensuring full and permanent respect for the rule of law.

2. The consolidation of market economies is even more complex because, unlike democracy, they do not represent an aspiration or value held by a majority of the population. In Latin America, the market economy has gained acceptance by exclusion —i.e., in the absence of an alternative—, not by conviction or because it inspires enthusiasm. This creates the problem of how to win enough sustained social and political support for a development agenda with those features. The widespread perception that the market economy tends to produce a basically unjust distribution of wealth, together with the aversion to the idea of "lucre" that characterizes both the Marxist and Catholic traditions, have instilled a degree of instinctive antagonism to this model. This is compounded by the ethical principle that the poor "cannot wait" and the political principle that the middle social strata with low or modest incomes "will not wait" (reflecting the fact that the latter group has a capacity for political pressure that the poor usually lack).

3. The globalization of the world economy and the Latin American countries' growing involvement in that process have had the internal political effects of eroding the State's sovereignty and curtailing its autonomy in making policy choices on economic issues. Policy decisions on tariffs, taxes, exchange rates, interest rates or various kinds of government controls may be incompatible with the rules of the game of an open economy, if they conflict with the operations of markets.
4. The preceding observation is particularly relevant to wage policies and labour relations in general. In an open economy, pay levels should react to and be determined by productivity and competitiveness, since this system leaves no room for the types of alliances between workers and employers in specific sectors which, in the past, established wage and price patterns for the products involved and imposed them on the rest of the country. Moreover, the new order offers little room for political arbitration on pay levels in cases of social conflict, or for redistributive policies based on increases in nominal wages.
5. The restrictions which the new circumstances place on public action in economic matters should, however, be reconciled with the need to achieve and maintain reasonable levels of social harmony (without which political stability and sustained economic growth are impossible) through persistent and effective action in the social field to redress the problems of poverty, unequal opportunity and the other inequities that plague Latin American societies.

In the democratic Chile of the past four years, the concept of growth with social equity in a constantly improving democratic system has been devised as a conceptual and operational response which will serve as the linchpin of a "country agenda" to guide State action.

6. Together with the aforementioned developments, the countries are witnessing a growing social diversification manifested by the dual phenomena of a better-organized civil society (as exemplified by trade unions and professional associations, neighbourhood associations, parents' groups, etc.) and processes of territorial decentralization that strengthen the powers of local (municipalities, communities) and regional (regions, provinces, states) authorities. This is another process that erodes the central Government's power. In all of these areas, the aim is to reconcile the necessary and inevitable shift towards a more participatory democracy

—which entails the delegation of authority, decision-making powers and resources from the State to society and from the central Government to regions and communities— with the requirements of a coherent national policy to address the demands of economic development and social progress.

Chile has reverted to the system of municipal authorities (a mayor and a municipal council) elected by popular vote, and has established a new system of regional governments (dividing the country into 13 regions), to which considerable powers and budgetary resources have been transferred. The Government is fully aware that these changes pose an enormous challenge with regard to administrative capacity.

7. Integration into the world economy, in turn, compels the Latin American Governments to choose among several options currently being debated. Chile is strongly in favour of implementing a multidimensional strategy that solidly endorses wide-ranging, overall freedom of trade while simultaneously taking advantage of any opportunities to enter into regional or bilateral agreements, as long as the latter are compatible with GATT rules and help to increase (and not merely redirect) net trade.
  
8. More specifically, in terms of public administration, it has been stressed repeatedly that the State must be scaled down, primarily by privatizing public enterprises. However, the problem is not so simple. Although it is true that the State in Latin America generally has too many employees and too many functions, the aim should not be merely to shrink it as much as possible. The real challenge is to build a State that is smaller (measured in terms of public employees and number of institutions and activities), but also more solid, with robust technical capacity, superior strength and greater political cohesiveness, and able to perform effectively the various functions demanded of it by contemporary circumstances. The effective exercise of authority, within the confines of the rule of law, and the capacity to resolve problems and conflicts and to implement policies and programmes —i.e., to get things done by translating decisions into effective action— are attributes of the contemporary State in which the Latin American countries must acknowledge their severe shortcomings.

## SUBJECT AREA II: ANALYSIS OF PROCESSES OF STATE REFORM, MODERNIZATION AND ADAPTATION (completed or under way)

### II.A. Reforms undertaken in Chile

#### 1. Political reforms

- a. The first major reform was the **1989 constitutional agreement** between the outgoing military regime and the members of the Coalition of Parties for Democracy (the opposition at the time, which had won the 1988 plebiscite in which the citizenry rejected continued rule by the authoritarian regime after 1989). These consensual reforms were the first basic step in the process of building political consensus in the country, since they allowed the democratic opposition to recognize, as amended, the 1980 Constitution, which they had previously rejected as illegitimate in origin and anti-democratic in content.

Thus, the first important State reform provided political rules of the game that were acceptable to all sectors. Moreover, it was agreed that subsequent reforms of the Constitution would follow the procedure decided upon at that time; this agreement has been fully respected. The political uncertainty that had seriously jeopardized the country's stability and development was thereby eliminated.

- b. The **democratization of municipal authorities** under the relevant constitutional and legal reform (1991) provided for the election of mayors and municipal councils by popular vote, thereby legitimizing local authorities, who had previously been appointed by the President of the Republic.
- c. The **establishment of regional governments** took place under another constitutional and legal reform (1992). The governments of the country's 13 regions, whose decentralization makes them more responsive to popular pressure, consist of a regional executive branch and a regional council. The former is headed by a governor, appointed by the President of the Republic, who collaborates directly with regional

ministerial secretaries, also appointed by the President. The members of the regional councils, in contrast, are elected by indirect popular vote.

- d. **Reform of the judicial branch of government.** A set of draft laws has been designed to modernize and streamline the Justice Department and make it more transparent; reduce the Supreme Court's control over lower courts, which it had traditionally exercised without a counterweight; improve and expedite judicial procedures designed to safeguard the human and property rights of individuals; and —as the gist of the reform— ensure equal access to legal recourse. These draft laws are currently being debated in the legislature.

## 2. **Economic reforms**

- a. **Consolidation of property law**, particularly under explicit rules contained in the 1980 Constitution and through complementary legislation, such as the law giving individuals and enterprises recourse to the courts of justice under the so-called remedy of protection if they consider that their rights have been violated.
- b. **Unilateral economic liberalization** through a generalized tariff cut that reduced tariffs to 15% during the military government and 11% during the Aylwin administration (with the unanimous approval of the National Congress). At the same time, steps were taken to eliminate all non-tariff barriers.
- c. **Autonomy of the Central Bank**, expressly provided for in the 1980 Constitution, whose regulations in that regard were complemented by the Bank's own Charter. This reform, which was widely criticized at first, is now firmly established and supported by all sectors. Monetary and exchange-rate policy are based in the Bank; the Ministry of Finance can influence these policies only through technical dialogue and persuasion. The Bank's directors are nominated by the President of the Republic and appointed by special quorum (broad consensus) of the Senate.

In effect, the coordination and agreement between the Bank and the Ministry of

Finance on policy matters is based on the political consensus that most of the Bank's directors should be technically well-qualified and acceptable to the opposition, but politically close to the Government. In this way, a "majority for cooperation" was formed, without prejudice to the institution's autonomy.

- d. **Social security reform** consisted of replacing the traditional State-run system of distributing benefits (whose shortfalls had also been State-financed) with a system of individual capitalization through a variety of pension funds run by private companies competing among themselves for the voluntary affiliation of contributors. The State, for its part, guarantees a minimum pension by financing the difference between the legal minimum and the retirement benefits paid out by a pension fund, if they are lower than the minimum.

At the same time, the new system has accumulated a huge and growing stock of savings which, pursuant to the legislation in force (which is progressively becoming more flexible), is invested in various financial instruments, including shares of stock, while a still-limited proportion is invested abroad.

- e. **Reform of labour legislation.** Two phases of labour reform are clearly distinguishable. The first, decreed by the military government, gave the labour market maximum flexibility by facilitating dismissals; eliminating the State's traditional role in arbitrating wage disputes through its participation in so-called tripartite commissions; restricting collective bargaining; and abrogating, in practice, the right to strike. This phase represented a reaction to the power and political partisanship of union leaders in previous years, and was intended to facilitate the operations of private enterprise by eliminating the counterweight of unions and the political negotiation of wages. Naturally, these rules were fiercely rejected by workers, who refused to recognize them as legitimate.

The second phase (reform of the reform) was implemented by the administration of President Aylwin; its basic aim was to ensure that relations between employers and workers were governed by rules of the game whose legitimacy was recognized by all. To that end, the Government held a wide-ranging debate on the relevant draft laws

with employers and workers, whose representatives were also duly considered in the subsequent legislative debate. By this means —though different parties disagreed with specific rules contained in one or the other of the laws which the Congress ultimately passed—, the Government won full recognition of the legitimacy of the new rules and, consequently, respect for their provisions.

Essentially, the Aylwin administration's labour reforms created a better balance in labour relations by extending the use of collective bargaining and making it more effective (without abandoning the idea that it should be bipartite; i.e., keeping the State out of the process); fully reinstating the right to strike (while maintaining certain disincentives and costs to promote responsibility in the exercise of this right); and improving protection for workers by raising the cost of dismissals, but preserving the principle of flexibility in the labour market to help firms make the necessary adjustment to the changes in technological, financial and market conditions so as to maintain their competitiveness, and especially their export momentum.

- f. **Tax reform.** The military government implemented an initial tax reform that significantly reduced taxes on individuals, effectively eliminated the tax on corporate profits and introduced a value-added tax (VAT) to replace the traditional sales tax.

The Aylwin administration pushed through a new tax reform basically intended to mobilize resources with which the State could keep its promise to broaden its social programmes significantly in response to the acute inequities observed (termed the "social debt") and the deterioration in specific areas such as education, health care, housing, minimum pensions and various subsidies for the poor.

The reform moderately increased direct taxes by reinstating a 15% tax on corporate profits, and maintained the VAT, increasing it by 2%. Along with other minor provisions, these measures, together with the larger amounts collected as a result of economic growth (an average of 6% over the past four years) and fewer instances of tax evasion as a result of more efficient controls —technically facilitated by the VAT—, boosted fiscal revenues to the point where the Government was able to increase its

social expenditure by 10% to 12% a year in real terms, while generating a fiscal surplus equalling 2% to 3% of GDP.

It should be noted that the legislators of the main opposition party voted in favour of this reform and that it was adopted with the acquiescence of the business community, in a highly significant manifestation of basic national consensus that has enabled the State to implement its policies. This consensus materialized again in 1993, when some taxes approved only provisionally in 1991 were made permanent and a moderate reduction in taxes on individuals was enacted.

- g. **Forums for social consensus-building.** As the key component of its policy of consensus-building as a way of achieving social harmony, the Aylwin administration held annual forums for dialogue at which representatives of Government, business and workers sat down at the same table to discuss and agree on specific minimum wage levels, minimum pensions and family allowances. All of the agreements reached were later endorsed unanimously by the legislature.

It was decided not to establish a rigid formal institution for this purpose, but instead to invite relevant actors to participate voluntarily in each forum, so as to develop a "culture of negotiation and agreement" as a way of consolidating a style of labour relations compatible with social harmony. By this means, conflicts are settled at the negotiating table instead of translating into mass protest or other forms of open or covert pressure exerted by any of the parties involved.

- h. **Modernization of the capital market** under a law promulgated in early March 1994, which makes existing rules more flexible, authorizes the creation of new financial instruments, facilitates investment and the sale of certificates abroad, increases (prudently) the amounts which pension funds are allowed to invest in various instruments and improves financial regulation. This law represents an attempt to reconcile greater incentives for investment with the need to safeguard public trust and properly manage conflicts of interest.



- i. **Modernization of the banking system** under a draft law, currently being considered in the legislature, whose objectives are similar to those of the law on capital markets. The law also proposes an equitable market solution to a problem inherited from the early 1980s, when the financial "crash" gave rise to the so-called junior debt of some large private banks.
- j. **Extension of private investment** to all sectors in which it was still prohibited by various long-standing legal provisions at the time President Aylwin took office. The new rules give private investment access to railroads, ports, large-scale copper mining and, in particular, public works infrastructure, under the new law on concessions passed in 1992, which authorizes private investment in roads, tunnels, sanitation works, etc., through long-term concessions financed with tolls paid by users.
- k. **Promotion and regulation of competition** in various basic sectors of the economy, as exemplified by the fishing and telecommunications laws promulgated by the Aylwin administration.
- l. **Establishment of a new State institutional system in charge of public policies on the environment**, under a "framework" law promulgated in the final days of the Aylwin administration. It consists of a Committee of Ministers, which acts as a higher coordinating body; some of the ministries represented concern issues that are highly sensitive from an ecological perspective (health, agriculture, mining), while others are related to economic development (finance, economic affairs). The Committee is chaired by a Minister in the political sphere —the Secretary-General of the Presidency—, as an indication of the high priority assigned to the issue and the need to balance development concerns with ecological ones. The technical arm of the new institution is a decentralized public service under the authority of the Secretary-General of the Presidency. In addition, regional environmental commissions are to be established and headed by the regional governors.
- m. As a means of modernizing the State with respect to the need to give due attention to new issues that are highly sensitive and significant, Chile has established the

**National Women's Service** —headed by an official with the rank of a government minister— and the **National Youth Institute**.

- n. In the **Ministry of the Interior** (equivalent to what other countries call the *Gobernación*), a **Department of Public Security** has been established. At the same time, the **police force** (Carabineros de Chile) **has been strengthened** and various legal provisions have been adopted to make the fight against crime and drug trafficking more effective, and to prevent terrorism. Through these measures, the State has sought to provide effective answers to a real problem, which has become one of the population's greatest concerns in recent years.
- o. Moreover, progress has been made in **modernizing the State with respect to decision-making processes, cohesiveness of policies and programmes within the executive branch and better coordination and fluidity in its relations with the legislature and political parties**.

To that end, the Office of the Minister-Secretary-General of the Presidency was strengthened and given explicit responsibility for programme coordination. Moreover, interministerial coordination committees were set up, for which purpose the Minister's cabinet was divided into five main areas: the Political Committee, the Economic Committee, the Productive Development Committee, the Social Committee and the Infrastructure Committee. Likewise, a set procedure was established for elaborating and consulting on draft laws before submitting them to the legislature, and bipartite sectoral commissions were created for the exchange of advice and information between the Ministers (and their advisers) and the legislators of the corresponding commissions of the Senate and the Chamber of Deputies.

In sum, an institutional network for consultation, information and coordination has been established, and has undoubtedly helped to maintain cohesiveness in the Government, both within the executive branch and in its relations with legislators and the parties of the ruling coalition.

- p. **A rigorous procedure for the socio-economic assessment of public investment projects** was devised a few years ago, and is still in full operation. The Ministry of Planning and Coordination (MIDEPLAN) is in charge of this task, which it carries out in a territorially decentralized manner through outside consultants and its own specialists. In the approval process, the Ministry sets minimum levels of social benefits to be reaped from the projects, which are classified in decreasing order of benefit yields. No investment project can be included in the public budget without the approval of MIDEPLAN, which adheres strictly to the evaluation procedure.
- q. It should also be noted that the Government, by establishing a **Studies Division within the Office of the Secretary-General of the Presidency** and systematically seeking advice from outside consultants, has **introduced a strategic vision into State action** which is periodically adapted to changes in circumstances, and serves as a kind of road map to steer government action. This represents an effort to overcome the tendency of Governments to become so mired in immediate concerns that they lose sight of medium-term prospects.
- r. The **coordination and evaluation of the progress of government programmes have been strengthened through the introduction of the so-called Ministerial Goals mechanism**, also based in the Office of the Secretary-General of the Presidency. Every year, this office establishes the main action priorities for each Ministry, including *inter alia* the activities it carries out directly, its internal administrative reforms and its legislative programme. This instrument, which does not attempt to cover all the actions of every Ministry and is therefore considered a means of selectively identifying priorities, was designed to complement the control over the allocation of the public budget exercised by the Ministry of Finance, whose Department of the Budget helps to elaborate and evaluate the Ministerial Goals.

## **II.B. Evaluation of the reforms (coverage, irreversibility, legitimacy, sequence and comprehensiveness of the reform process)**

The preceding list covers both reforms of specific government policies and of political and economic rules of the game and changes in institutions and in public administration. The concept of State modernization has been interpreted here in a broad sense, considering the varied dimensions of the State's current situation and functions.

The progress made thus far can be summarized as follows:

1. Political reforms have had the effect of legitimizing the existing institutional structure (the Constitution, labour relations, local governments, etc.) by winning acceptance from all relevant sectors of national opinion (including the military).

It is therefore safe to say that democracy has become firmly entrenched in the country, with no risk of a reversion to authoritarianism or ideological questioning by the right or left wing.

2. The decision to build a market economy open to the outside world and dominated by the role of private enterprise is now recognized as the only viable development strategy for the country. The Aylwin administration's commitment to that strategy, based on its own convictions (and reaffirmed by the newly inaugurated Frei administration), has given this economic option the political and social legitimacy it lacked at the time of the transition to democracy, because it had been imposed by the authoritarian regime.
3. In the author's view, the possibility of sustaining current economic policies over time hinges on the country's capacity to continue to reconcile the demands of an export-led economic growth policy (macroeconomic balances, stimulation of competitiveness, incentives for investment, stable economic rules) with the requirements of an effective commitment to social equity (poverty reduction, equal opportunity, reasonable distribution of the benefits of progress among all sectors). In Chile, this has been termed growth with equity, and is considered an imperative for ensuring political stability, economic dynamism and social harmony. It is also an ongoing challenge, because even though such compatibility has been

shown to be possible, its existence is not guaranteed over time. In fact, its durability depends on both the effectiveness of economic and social policies and a consistently positive perception and assessment of them on the part of the citizenry.

4. With respect to State modernization, progress has been partial but significant in the development of economic and social policy instruments, which must be constantly evaluated and complemented.
5. In the area of public administration, the progress made to date, though also significant, is undoubtedly partial and insufficient. It must be acknowledged that the measures taken thus far are subject to revision and still in need of consolidation and expansion, and must also be extended to areas and sectors that have yet to be addressed.

### ISSUE III: THE MEANING OF THE PROCESS OF MODERNIZATION OF THE STATE WITHIN THE FRAMEWORK OF KEY DEVELOPMENT OBJECTIVES

#### III.A. With respect to the consolidation of democracy

The Chilean experience, characterized by a unique historical process whose development can only be explained in the context of its own circumstances, invokes in any case a set of reflections that appear relevant to any analysis of processes of democratic consolidation and modernization of the developing countries which, in short, face similar challenges in the spheres of politics, economics, society, culture and public administration.

In this respect, I would like to highlight the following particularly relevant aspects:

1. Irrespective of the unique aspects of the history of each of the countries in Latin America, today they face the common challenge of consolidating democracy, achieving economic growth and ensuring social peace. These three elements are indissolubly linked and closely interdependent. Without the political stability that eliminates uncertainty, no growth will take place, because a sufficient and sustained level of investment will not have been achieved. For their part, the resources generated by growth are indispensable if we are to proceed responsibly with effective social policies, aimed at overcoming poverty, achieving equality of opportunity and spreading progress to all sectors of the population; in a democracy, this is a sine qua non for social peace. Finally, without social peace (a concept which does not imply a total absence of conflicts), there will be no political stability (a concept which, similarly, does not imply an absence of competition and confrontation between the Government and the Opposition); and where such political stability is lacking, the process of business investment and innovation required for growth to occur will not take place.

2. The great contemporary challenge for the governability of the countries of Latin America (and of those countries on other continents that have established or are advancing toward pluralist political regimes) consists in the simultaneous achievement of these three factors (political stability, economic growth and social peace).

"The crucial point lies in conferring on the objective of social justice the equal degree of importance and equal urgency conferred on development in regard to economic growth. It is worth remembering that in the past the movements favoring the redistribution of income vastly underestimated growth, but also that the neoliberal movements have rejected the very concept of distributive justice.

I firmly believe that it is vital to formulate economic growth and social equity as simultaneous objectives, as well as ensure that the majority of the citizenry perceive this to be so, if there is to be a "societal coalition" supporting the development strategy that guarantees governability over the medium term. I believe that what we have achieved in Chile -including inter alia tax reform, labour reform and wage agreements featuring regular increases in minimum incomes- has played a decisive role in the maintenance of a surprising popularity rating of 60% or more for the Government at the end of four years in power.

At the margin of the Chilean case, the existence of a societal coalition as a condition for governability allows us, in turn, to meet another requirement, namely the existence of a political majority capable of governing, making decisions and carrying them out effectively. Only the existence of a political majority with sufficient support in society makes it possible to avoid, on the one hand, the populism which has plagued Latin America for so many decades, and on the other, the authoritarian temptation which arises when there is no perceptible progress and improvement in justice over time, which facilitates the emergence of strong men of various hues.

3. What I am affirming here is that growth and social equity are compatible, and that, furthermore, each needs the other in the medium term, as a condition of governability. This does not mean that ensuring that such compatibility is real does not represent a challenge of considerable magnitude; this state of affairs is amply illustrated by the examples that I have presented with respect to Chile. What is the most suitable level of taxation for collecting resources targeted at social development while, at the same time, ensuring a flexible process of saving and investment? What labour practices best combine the flexibility of the labour market necessary for the integration of a competitive economy into the international economy (a process which implies permanent adjustments to the pattern of production), with sufficient protection for the worker, who pays the immediate costs of those same adjustments? Achieving compatibility between growth and social equity is another vital condition for democratic governability in the medium term."<sup>1</sup>

4. Any policy of development in democracy which seeks to achieve stability, growth and social peace, requires a public institutional framework and mechanisms that link the Government, the other political actors (the Legislature, political parties and, where appropriate, regional authorities) and the relevant social organizations, so as to ensure the effectiveness of the concepts of majority rule and the social bases for support.

This means, at the least:

- a) Internal cohesion in the Government's programme; the mechanisms described in relation to Chile seek to meet that need.
  - b) The strengthening and modernization of the key institutions of democracy, namely the Legislature and the political parties. In this connection, it is essential to implement or give maximum impetus to programmes that shore up the Legislature, as well as to initiatives that seek to institutionalize and modernize politically and technically the political parties.
  - c) The strengthening of highly representative organizations of the civil society, that can assume the role of valid and responsible partners of the Government and that possess the necessary legitimacy and influence to ensure that their members, as well as the widest sections of society they can influence, honour the commitments that such employers' organizations, trade unions, and professional or territorial associations have assumed. The policy of social reconciliation promoted in Chile in recent years has been made possible owing to the existence of representative social organizations. This policy has, in turn, strengthened these organizations both in terms of legitimacy and substantive capacity for action and influence.
5. The best conceived policies and the most modern institutional framework become discredited and are condemned to failure, if, in the State and the political class in general, corruption is a reoccurring phenomenon or if the citizenry come increasingly to suspect the existence of corruption owing to a lack of transparency in public administration. The prevention of corruption and the rigorous punishment of those guilty of fraudulent acts constitute another precondition of democratic stability and sustained development.
6. The existence of an independent, ethical and efficient justice system, which effectively protects the rights of individuals, is, like the factor mentioned in the previous point, with which it is closely associated, a precondition of stability and progress.

### **III.B. With respect to productivity and competitiveness**

1. In order that the processes of investment and innovation necessary to enhance competitiveness develop in a sustained and dynamic fashion, there is, in the first instance, a need for "stability and continuity of economic policies at the most basic level (i.e. an absence or reduction of uncertainty); this in turn translates into stable "ground rules" that facilitate decision-making, especially with regards to long-term investment, and implies, in short, respect for the basic logic underpinning the operation of private enterprise."<sup>1</sup>



Stability must not, nor cannot, be taken to mean paralysis of the status quo or an absence of change. "What it does mean is that the principle of gradualness of political, economic and social change must be accepted: for the sake of continuity, there is a renunciation of radical and profound changes to the political, economic and social system over the short term. In a democracy, the consolidation of change in a manner compatible with the operation of an economy based on private enterprise requires social acceptance and the ability to absorb the change, and that is measured over the long term. In a democratic system, changes can be taken as accepted when, in the election following the point in time in which a particular regime or Government implements them, they are ratified by a large majority of the electorate or they disappear from the agenda of public debate. The acceptance of the gradualness of change, or put another way, of a substantial degree of political, economic and social continuity, is a condition of governability in a democracy."<sup>1</sup>

2. The role of the State, beyond that of economic policies which maintain macroeconomic equilibria and stimulate investment and exports, is to promote and safeguard competition in all markets, as well as foster environmental policies, that, without curbing investment, ensure the sustainability of development over the long term.

The laws mentioned above in the case of Chile (concerning telecommunications, the stock market, banking transactions, the fishing industry, the environment, etc.) aim inter alia to promote competition, protect such competition from the emergence of monopolies, and stem environmental damage and wanton destruction of natural resources.

In particular, there is growing awareness of ecological issues, especially among young people. This poses environmental policy with the complex challenge of reconciling ecology with development, preserving the environment and reducing the various forms of pollution, without raising the costs of investment to levels that are incompatible with potential rates of development.

In a similar vein, there is a need to strengthen the regulatory power of the State, especially in those sectors where monopolies or dominant firms tend to emerge (energy, telecommunications, the financial sector, etc.); this takes on particular relevance in an age when there is an inevitable decline in State ownership of businesses. The emphasis on regulation must, however, avoid divergence from the objectives of promoting and safeguarding effective and transparent competition, leading to a new form of interventionism and State control of economic activity.

3. The privatization of public corporations has become a "matter of conventional wisdom" and a central pillar of many policies of economic reform. There are instances in which this process can

advance without major difficulties or political opposition, but there are also instances in which, at least in a number of sectors, the issue has become a matter of political and social controversy. Confronted with such a set of circumstances, Governments are accustomed to go back on their intentions, discontinuing or postponing these processes.

The contention that all public corporations are, by definition, inefficient and must therefore be privatized holds little water in my view. If privatization is set forth as a problem of ideology, it is highly likely to become a contentious issue, given the customary opposition mounted, for specific and understandable reasons by, for example, the unions representing workers in any State corporation facing privatization. Similarly, under a democracy, the processes of privatization must be totally transparent, in such a way that there are no grounds for suspecting that such processes are being conducted to the improper or illegal advantage of individuals or firms in the political or private sphere.

There are, however, a number of reasons for contending that there is a trend for State corporations to have a progressively reduced relative presence in the domestic economy, of which the following should be pointed out:

- i. The lack of compatibility between the requirement to invest in social programmes and infrastructure as key and unavoidable responsibilities of the State, and the need to invest resources for the expansion of public corporations that encounter profitable opportunities or projects.
  - ii. The need, in an open and competitive economy, for wages to be set in relation to productivity, in flexible labour markets (with adequate protection for the worker); this is difficult to achieve in public corporations, in which negotiations of such issues are inevitably political and where the immobility of labour is traditionally very highly.
  - iii. The political pressure placed on State corporations' boards of directors, whether concerning the hiring of staff or the undertaking of objectives that are incompatible with sound business management practices, such as attempts at redistribution targeting certain sectors of the population or geographical areas. There is no doubt that the State should make subsidies in line with a specific decision to do so, expressed in the Government budget and not hidden by the lower profitability of a particular enterprise.
4. One important aspect of the modernization of the State in relation to improved productivity is the establishment of a public institutional framework and effective support mechanisms for small-sized enterprises. Large enterprises flourish on account of their own efforts and only need an adequate framework in which to develop. The same cannot be said in the case of small-scale enterprises, which

are obliged to improve their management skills and gain access to technological innovation, credit and staff training. The private sector can operate many of these programmes itself, but there is undoubtedly a need for State stimulus and the mobilization of public resources.

### **III.C. With respect to the achievement of social equity and environmental sustainability**

1. Mention has already been made in previous paragraphs of the challenge for development posed by the application of an environmental policy that reconciles ecology with development. For this to happen, there is a need for a public institutional framework, a suitable legal framework and effective policy instruments. The latter include environmental impact studies and their assessment by the competent authority on the basis of objective and transparent criteria, regulations and standards governing the quality of the environment, the formulation of environmental cleanup plans and emergency plans to deal with critical situations, the possibility of implementing market mechanisms which redistribute actual pollution among the polluters in accordance with technological and economic conditions, etc.

The public institutional framework must extend to all sectors and regions of every country. So, instead of setting up a Ministry of the Environment as the only authority on the matter, Chile opted to set up environmental units in various ministries, establish an interministerial coordination mechanism and create a decentralized public service.

2. A precondition for obtaining greater levels of social equity is the achievement of high growth and low inflation, so as to generate employment and ensure a rise in real wages and incomes of workers, these being the group most adversely affected by unemployment and inflation.

3. Social policies should be designed increasingly to replace mere welfarism by what we in Chile have called programmes to integrate into development, which are conducive to self-sufficiency for the most vulnerable sectors of society; this is because social welfare does not eradicate poverty but rather serves only to ward off or reduce its most obvious symptoms, for the duration of the respective programmes.

4. From a more general point of view, attention could be drawn to the fact that the structure of the State and modern public management should agree inter alia on the following instruments, with an emphasis on each that is desired or possible:

a) Welfare programmes, for the benefit of those living in indigence or extreme poverty, which meet the administrative challenge that calls for ever more efficient targeting, thus reducing "leakages" to less needy groups.

- b) Education and training at the primary, secondary and technical/vocational levels as the main tool in the achievement of true equality of opportunity; for this reason, emphasis should be placed both on access to education and on the attainment of the same level of quality in urban and rural districts, and in rich and poor ones.
- c) Other social policies (health, housing, parks and gardens), as instruments for raising and leveling the quality of life.
- d) Support for independent economic initiatives by the poor, through the setting up of small businesses and other forms of self-employment.
- e) The redistribution of assets, not in the sense of the expropriation of assets, but rather through access to ownership for the vast majority of the population. The AFP scheme, pertaining to private pension funds, has, among other merits, converted millions of Chileans into shareholders in large private firms; this has undoubtedly had a stabilizing and democratizing effect, because it has provided a greater proportion of the population with an active stake in ensuring that the firm prospers and makes profits. This instrument may well prove key in the achievement of greater social legitimacy by the market economy.
- f) Finally, a policy of social equity must contain significant features for "empowering the disadvantaged." One contribution to this end involves the strengthening of social organizations, such as the most recent Chilean labour reform, which has placed the unions on a more equal footing with their counterparts from the ranks of employers in the collective bargaining process. Other areas of reform which deserve examination in this context include the transfer of powers and the capacity to manage social services or other activities to neighbourhood or community organizations.

**SUBJECT AREA IV: REFORM AND MODERNIZATION STRATEGY:  
AREAS OF INTERVENTION, ROADS TO CHANGE**

**IV.A. General observations**

1. A country's development is an ongoing process of progress, modernization and rising productivity. The modernization of the State should also be understood as a process that seeks greater effectiveness and efficiency, which requires increasing productivity. Given the nature of the State, its modernization also implies more coherent and effective policies and due care for its social legitimacy. As mentioned earlier, in the context of the essentially political and social problem of governability, the modernization of State **administration** constitutes a technical dimension and unites the technical and political dimensions of this vast issue.
  
2. The modernization of State administration should be formulated in terms of and based on its different roles, including all their priorities, sequences and specificities that need to be spelled out. For the purposes of this study, they can be classified as follows:
  - a. **Traditional functions:** Public order and citizen safety, justice, foreign relations, defence.
  
  - b. **Responsibility for the efficient functioning and improvement of political institutions and relations.** This responsibility belongs to society as a whole, but the State plays a vital role.
  
  - c. **Framework for growth and the development of private-sector production.**
    - i. **Macroeconomic function,** namely, responsibility for economic policy.
  
    - ii. **Support for the private sector** in what is needed in each specific period: small and medium-size enterprises, technological innovation, training, education, export promotion, new market penetration, etc.

- iii. **Regulation.** A State that largely abandons its past entrepreneurial role increases its regulatory responsibility. It has to promote and preserve competition, ensure market transparency, and defend consumer and user rights, all without converting regulations into a new form of dirigisme or State intervention that restricts liberties and contradicts the normal "rules of functioning" of private economic activity.
- iv. **Policy on public enterprises.** As mentioned earlier, the problem with State enterprises is not that they are intrinsically less efficient than private enterprises. The modernization of the State in this regard should not be approached ideologically (neither privatize on principle nor oppose privatization because of a doctrine) nor from the dogmatic perspective of a supposed superiority of private management. It is necessary to take into account and duly assess, in each case, certain adverse conditions that public enterprises normally face, which were mentioned previously.

d. **Social policies, social investment and provision of social services.**

This is the key function of a modern State in a process of growth with social equity, in which the private sector is the main engine of growth, in so far as it corresponds to the State to promote and guarantee social equity (through anti-poverty and equal-opportunity programmes).

e. **Public policies and action programmes in areas in which a collective will is expressed, and the State's subsequent political decision for ongoing initiative.**

This is the case of the environment, youth, women's issues, the family, etc.

**Conclusion.** All this leads to the conclusion that the modern State will be different but no less important than the State in previous periods of Latin American development. It may be smaller in size, but it will have to have more political and technical capacity, be more agile and flexible, and less bureaucratic.

3. **On the other hand, the modernization of State administration is also, in its technical dimension, a multidimensional task** with various factors. Although these dimensions are intertwined, it is helpful to distinguish them for purposes of analysis and to prioritize them and place them in sequence. We distinguish:

- a. **Institutions and public relations.**
- b. **Human resources:** personnel in public administration.
- c. **Public administration:** Administration, "managerial" functions, administrative procedures, operational efficiency, implementation: do things and do them well.
- d. **Roles of the State:** Provision of services, formulation of public policies, entrepreneur, regulator.
- e. **Structure of the public sector:** Attributes, functions and responsibilities of ministries and public services; coherence and cohesion in public action.
- f. **Decision-making process,** with due attention to its technical and policy dimensions and the need for both to be integrated and coherent.
- g. **Decentralization** as an increasingly important process that influences all the above aspects, which already cannot be analysed without explicitly considering this factor.

In examining these different dimensions of State administration, any reform proposal should be assessed on the basis of whether or not it improves public action in relation to one or more of the essential capacities that every effective modernization should strengthen, namely:

- i. **A greater capacity for exercising authority in a participative democratic framework,** i.e., more expeditious and coherent decisions backed by maximum legitimacy (which does mean unanimous backing for the substance of the decision but rather social acceptance of the procedure).

- ii. **A greater capacity for solving problems**, i.e., a substantive technical improvement.
  - iii. **A greater capacity for resolving conflicts**, i.e., an improvement in the socio-political process with substantive technical support for generating technically sound and socially sustainable solutions.
  - iv. **A greater operational efficiency**, i.e., timely and faithful implementation of decisions.
4. "Above all, it has to be remembered that the Latin American State is a State of developing countries. Therefore, it cannot be expected to be more developed than the respective country as a whole. This is a key idea, given the negative judgement and acid criticism usually given to the public sectors of Latin America. This does not lessen the urgency of modernizing these sectors to make them more efficient, but it does mean that we are not going to radically change that State overnight, and that its modernization is going to be part of the country's overall process of modernization and development. It could be accelerated somewhat, and hopefully so, but it will never be far from the rate of national progress".<sup>1</sup>
5. For that reason, the modernization of State administration should be understood as a continuous process of multiple tasks and challenges that unfolds on the basis of partial and sequential reforms, structured on the identification of priorities, urgencies and opportunities.

It is a fact that international experience in this area shows that ambitious projects of integral reform almost inevitably fail. Such projects do not take into account the limited capacity to absorb change in any given historical moment.

This limitation arises from objective factors, such as the following, which can be summarized under the generic concept of "transition costs":

- a. The inevitable "bureaucratic resistance" to change;



- b. The probable differences of judgement about the best solutions for the situation, or about the problem to be solved;
  - c. The disruption caused by the discontinuity associated with change; the spread of discontinuity through public administration normally produces serious breakdowns of indispensable formal routines.
  - d. The cost of learning and assimilating the new rules.
6. Any project to reform public administration should consider the reality of the country at the moment of implementation. Thus, for example, in a country that is progressing and living a period of expansion, basic consensuses and an optimistic view of the future, the natural tendency is to continue doing the same thing at all levels. In a period of crisis, to the contrary, the need for change is widely accepted, including, certainly, the State apparatus.
7. All things considered, only that which can be digested in a given moment and which is clearly a priority should be attempted. Deciding in this regard is a question of criteria, but also of timeliness. "Relatively ambitious reforms should be undertaken (according to conventional wisdom) at the beginning of an administration. The first year of Government is the best time for a sweeping modernization of the State, but if it is to succeed, efforts must continue throughout the term. Reforms have to have been prepared in advance. If a Government starts at square one when it takes office --which has been the general rule in Latin America, given the tradition of discontinuity in its policy and administrative management-- only beginning to plan what it is going to do, by the time it has finished preparing its specific modernization project, the period when it would have been politically viable will have passed. A basic element of continuity, then, is preparing public administration in advance, in consultation with those who could be successors (be they political allies or in opposition), so that the new administration can implement at once the most urgent reforms".<sup>1</sup>

#### IV.B. Priority reform areas: (tentative suggestions about difficult issues).

##### 1. "Personnel policy

For me, the first and most fundamental of these areas is what can generically be called personnel policy, dealing with wages and civil service careers. The reality of public administration in most Latin American countries, and certainly in mine, is one of growing imbalance. Faced with a dynamically expanding private sector, public-sector professional wages rapidly deteriorate in relation to private-sector wages. However, administrative personnel, who normally have tenure as civil servants and have a certain capacity for political pressure, can achieve, in the less skilled sector, wages equal to or even higher than their counterparts in the private sector. For this reason, simple formal solutions --such as the concept of the single wage scale-- do not work. If a single scale is established in order to attract high-level professionals, the State cannot bear the cost if it attempts to apply it equally to all. On the other hand, if wages are kept within a range that is politically viable, establishing a scale that avoids open conflict with the administrative personnel of the State, it will be impossible to attract and retain high-level professional personnel".<sup>1</sup>

This is a key dilemma. There is no clear solution, but there are paths we can explore. We have to reject any formula that is not transparent, secret or involves wages from different budgetary sources, since these formulae lead to a loss of prestige, produce conflicts and political upheavals and become unsustainable. More imaginative solutions are needed.

In terms of modernization of the State, what is needed is to attract and retain for a prudent amount of time a sufficient nucleus of high-level personnel, and to develop an organizational culture, a collective attitude of public employees centred more on serving the user than on their own problems as civil servants. I think the wage levels of public professionals can be raised, with a percentage of their pay exempt from deductions, for a certain number of years, in a way that is not part of a permanent formal wage structure.

A sufficient number of the best university graduates can be attracted to public service or a reasonable period of time. These young professionals, if they are capable, will make a positive

contribution if they remain in public service for five to seven years. Some of them will later advance to political-level posts and will remain in the public sector; others will continue their careers in academic life or in the private sector, with a bright future, given their experience and status acquired in public service.

Real incentive systems have to be established in order to promote the right attitude among public employees. Experience shows that, generally speaking, effective mechanisms for reward and punishment do not exist. Evaluation systems usually turn into human-relations problems among the managers who evaluate their subordinates, if the manager does not evaluate everybody on merit. Perhaps something simpler is needed: it could, for example, be taken as a norm that the majority are good, but not excellent, public employees. Evaluations could seek to identify a limited number of people worthy of special distinction, giving them the right to be promoted, while another minority, evaluated as performing poorly, can abandon public service if that evaluation is repeated, with tenure having no effect for them, and that most of the personnel be considered in the category of normal performance.

## 2. **Decision-making process**

The most important part of decision-making is having systematic, relevant, timely and reliable information and selecting it well, since an excess of information can be as harmful as the lack of it. The timeliness and relevance of information are fundamental, therefore it is essential that information be transmitted from its source to its users in a systematic and routine fashion. The second most important part is analysis. Informed decisions require analysis, which in turn requires organization.

In Chile, we tried to generate within the Executive Branch something very difficult to achieve: analysis units which, at the general policy decision-making level, integrate the political and economic dimensions with social considerations. The goal was integrated analysis. This is not analysis made by politicians advising a president, which by definition is also political. Nor is it merely technical analysis, like that required by finance ministers. At the central policy level, it is essential that these different variables be integrated through a process that relates them to one another, in order to elaborate a technical and political synthesis.

It is also essential that this analysis can maintain a good balance between short- and medium-term considerations.

Governing --carrying out the roles of government within the State apparatus-- almost inevitably leads to the predominance of day-to-day problems and to the risk of losing sight of the strategic dimension and medium-term consequences. The coherence and continuity of governing can be seriously affected if immediate concerns consume all attention and energies, a tendency that must be effectively resisted.

To illustrate this problem with an example from Chile, in the Ministry that I headed, the Office of the Minister-Secretary General of the Presidency, we established, as mentioned earlier, a research department with the specific mission of issuing periodical reports on the medium-term prospects of the country, as well as on more relevant day-to-day concerns. In doing so, political leaders, social actors, academics, et al., both in favour and against the Government, were consulted.

It is essential to consult non-governmental organizations, including academic organizations. For government action to be more effective, inputs are needed from outside the State in terms of what can be defined as independent or autonomous, but loyal and constructive criticism.

A third aspect of the decision-making process is coordination. In dealing with any particular subject, all those whose criterion or opinion is needed must be consulted. This makes it necessary to establish mechanisms for relationships and coordination.

To illustrate what I mean by mechanisms for relationships, allow me to give another example from Chile. We established as formal mechanisms --which function in a routine and stable fashion-- bipartisan commissions comprised, on the one hand, of ministers of State and their technical advisors, and on the other, the counterpart sectoral commissions of Congress and the technical staffs of the political parties that support the Government. This allows for an exchange of information and criteria that contributes to more effective legislative and political action, while at the same time gathering the political decisions and viewpoints of those actors,

which is vital for orienting the decisions that the Executive Branch has to take. Second, the Executive Branch needs internal coordination mechanisms that go beyond the concept of Cabinet as a collective entity. The Cabinet, understood as the group of ministers presided over by the President of the Republic, is not an efficient instrument for decision-making and coordination. There are too many ministers. Cabinet meetings provide information and allow the President to orient his collaborators, but they do not normally take decisions.

With respect to coordination among ministries, I would like to point out that, to achieve governability and the continuity and cohesion of policies, **within the Executive Branch, the minister or ministers responsible for the political area must have a close and fluid relationship with the minister or ministers responsible for managing the economy.** Historically, Ministers of Finance and Economic Affairs have tended to remain isolated from those who pressure from society and even their own colleagues. In our experience in Chile during these years, the cohesion between the Government's political and economic teams was decisive for ensuring the continuity of policies.

It is my belief, therefore, that when choosing collaborators, every president should seek to ensure a high probability of concerted action and real alliance between his main economic minister and his key political ministers. It is also important that there be occasions when the growing proportion of problems that transcend a given sector are analysed and solutions agreed upon. This is obvious for the environment or youth and women. But agricultural, education and health-care problems also often transcend their own sector.

Therefore, for State action to be cohesive, inter-sectoral coordination mechanisms are required. As mentioned previously, in Chile we established a number of inter-ministerial committees, dividing the Cabinet into five areas: economic, production development, social, infrastructure, and political, which generated the capacity to coordinate different matters more fully. The joint participation of ministers and advisors in different committees ensures, in turn, that the political and technical dimensions of problems are integrated.

### 3. **Policy and programme implementation**

Lastly, we have to look at the problem of making sure that things get done. In the public administration of our countries and among political leaders, one often has the impression that simply enacting laws can solve problems, that establishing an institution on paper is effectively facing a problem, or that taking a decision and communicating it those affected puts an end to a problem. We all know that this is hardly the case, and that the decisive aspect of State programmes and policies is their implementation. What is often forgotten or ignored is that the process of implementing policies is also normally a political battlefield, because those who feel that their interests are negatively affected by a given decision can consider this the best time to block it by preventing things from getting done. This fact, together with the weakness of public administration, obliges us to give special attention to implementation. Here, I simply want to say that implementation has, obviously, an administrative dimension with respect to efficient procedures, new management methods, the possible transfer of management --even to private agencies-- all of which is part of necessary modernization. However, in implementing programmes and policies, attention also must be given to the roadblocks thrown up by the organized political resistance of those who seek to stop what on paper has apparently already been decided. This leads us to consider strategies for publicity and winning the support of public opinion, as well as eventual compensation for the "losers", and other forms of pressure and negotiation.

### 4. **Instrument for programming and monitoring the administration of public programmes**

With respect to this question, I would only like to reiterate and develop what I said earlier about our experience in Chile. Even though we still need to improve our budget process and our mechanisms for evaluating public investment projects, I would like to suggest that in our country we have consolidated a new instrument for programming and monitoring the administration of public programmes, which we call "ministerial goals".

We define "ministerial goal" as any activity of significant priority that a ministry is committed to carrying out in a given calendar year. This includes, therefore, operative programmes of direct action or contracted out to third parties, investment projects, draft laws to be presented

and processed in Parliament, administrative acts (regulations, guidelines, etc.), formulation and implementation of policies within its competency, or negotiations with specific groups or sectors.

Therefore, this instrument is different from the budget. By limiting it to significant priorities, it makes no attempt to cover all the activities of the ministry that involve expenditures. It does include, however, different actions that might not require any expenditures, as in the case of legislative or regulatory initiatives. Ministerial goals emphasize qualitative objectives expressed in terms of results that are not always measured by the size of the expenditure involved.

Therefore, ministerial goals should be understood as an instrument that goes hand-in-hand with the budget. What is good about it is that it tries to identify programmatic priorities with all their ramifications, recognizing the essentially political nature of that exercise.

Ministerial goals have facilitated the Government's task of having a sufficiently detailed overview of its priorities in each sector of the administration, monitoring their progress throughout the course of the year, and eventually assessing the results. For this last purpose, the President of the Republic established a formal process for evaluating during January of each year the action of each ministry during the year that just ended, which, in turn, helped identify the ministerial goals for the following period. In July, the Office of the Minister-Secretary General of the Presidency carries out an advanced evaluation of the goals for the current year.

It is important to remember that the main objective of this mechanism is not supervision, but rather to provide an instrument that helps to foresee and overcome political, administrative or financial obstacles faced in pursuing the proposed goals.

In the process of elaborating and following up on ministerial goals, the initiative and central coordination falls to the Office of the Minister-Secretary General of the Presidency through its Division of Interministerial Coordination. But the annual instructions distributed to the ministries are drawn up and agreed to by the Office of the Minister-Secretary General of the

Presidency, the Ministry of Finance and the Ministry of Planning and Cooperation, all of which sign the respective documents.

## 5. **A new concept and role for planning**

Changes in the world have rendered the traditional concept of planning passé. This was clearly the case with the centralized planning of the East-Block countries. The same has happened to so-called democratic planning which, to a large extent, was a concept based on the technocratic illusion that it was possible to lead a country to the "optimum solution" designed by the planners, which in turn was based on the predominance of the State over the market and private enterprise in economic matters.

Abandoning this kind of planning, however, should not lead to the conclusion that the State has no legitimate and necessary function in responding to the need to conceive of and carry out what in more political and modern language could be called a "country ideal".

Ultimately, it is a question of generating a national consensus about a long-term framework for orienting a development process in which all the actors can "row" together in the same direction, consequently with more efficient results. This framework cannot be very precise or detailed. It has to be flexible, adaptable, indicative and the product of the participation and contributions of a multitude of actors. The concept of "strategic planning" seems to respond adequately to these requirements.

This gives rise, then, to the question of how to create and strengthen this function within the State apparatus, with no pretensions of domination or political or bureaucratic hegemony.

First, we have to recognize that the integrated view of a "country ideal" is an inevitable and eminently political notion with a technocratic dimension that recognizes basic components arising from different spheres of objective reality.

With this framework, strategic planning can be conceived of on the basis of a functional and sectoral decentralization of a technical and political character, which is integrated in an overall political synthesis.



Concretely:

- a. Establish "top seeds" in the ministries, responsible for coordinating strategic planning and studies in their respective sectors, units or divisions (public services with small groups of high-level professionals). These units will provide the aforementioned committees with analytical material and proposals for strategic orientation and medium-term policies.
- b. Such studies and strategic planning units or divisions could be established in the following areas of State action:
  - i) Macroeconomic analysis and projection
  - ii) Productive development, integrating sectoral overviews in agriculture, mining, industry, commerce, etc.
  - iii) Infrastructure (public works, transport, energy)
  - iv) Social development (education, housing, health care, poverty, family, youth, women's issues, etc.), perhaps incorporating here the regional and local dimensions
  - v) Foreign policy, integrating the political and economic dimensions of international relations.

The integration of all of this into an overall view could be the task of a coordinating political ministry, for example, the Office of the Minister-Secretary General of the Presidency in the case of Chile, since the end result has the basically political character of constituting an image of the future or a view of the country ideal that could serve as a common framework for all the relevant actors in the country's affairs.

In ending, I would only like to reiterate that the modernization of the State is part of the political process of each country. The construction of basic political consensuses, the existence of a political majority in Government, sufficient social support for improving democratic institutions, economic growth and socially equitable progress are all interconnected conditions for stability and development.

Our countries are facing, then, a tremendous challenge and must undertake tasks of enormous proportions. The modernization of State administration is one of those immense priority tasks. Its success is conditioned on the existence of sufficiently favourable conditions at different levels, as mentioned earlier. Undertaking this task with determination and persistence is a necessary condition for achieving lasting progress in the political, economic and social fields.

<sup>1</sup> See "La Governabilidad: Un concepto Multidimensional", a document by the author presented to the seminar on "State, Development and Stability", held by the Inter-American Development Bank, Washington, D.C., April 1993.



